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UNCLAS SECTION 01 OF 02 YEREVAN 000380

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SUBJECT: HIGH DEMAND FOR AGRICULTURAL LOANS

YEREVAN 00000380 001.2 OF 002

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SUMMARY  
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¶1. The Central Bank of Armenia (CBA) recently released the results of a survey of 635 farmers around the country aimed at estimating local demand for agricultural loans. The CBA estimated that, without considering profitability and collateral requirements, total demand for loans was approximately USD 474 million. When profitability and collateral requirements were taken into account, the CBA estimated that demand was approximately USD 70 million. According to the CBA, as of August 2005, commercial banks had outstanding loans to Armenian farmers totaling approximately USD 26 million (AMD 11.6 billion). Most of the farmers were seeking loans for less than USD 1,100 and the majority of farmers, 64.1 percent, plan to invest in livestock, with only 35.9 percent planning to invest in crop production. End Summary.

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QUALIFICATION REQUIREMENTS BAR MOST APPLICANTS  
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¶2. The CBA surveyed 635 farmers in all 10 marzes about respondents' desire for loans, their ability to show creditworthiness by demonstrating a 40 percent or greater profitability rate and their ability to provide collateral valued at 100 percent or more of the loan value. According to the CBA, as of August 2005, commercial banks had outstanding loans to Armenian farmers totaling approximately USD 26 million (AMD 11.6 billion). The report did not provide an estimate of credit currently available through non-bank financial institutions. The CBA estimated demand for credit in three categories.

¶3. The first estimate was of the demand for loans based solely on farmers' desire for credit regardless their profitability and the availability of the collateral. Using this approach, the CBA estimated that total demand was USD 474 million (AMD 213 billion). The majority of that demand, USD 344 million (AMD 154.7 billion), was for loans with a term of two years or longer.

¶4. The second estimate was of the demand for loans

based on farmers' desire for credit and their ability to demonstrate profitability of 40 percent or more, a requirement of many local commercial banks. According to this approach, total demand was USD 155 million (AMD 70 billion) with demand for longer-term loans lasting for two years or more accounting for approximately two-thirds of total demand.

15. The third estimate was based on farmers' desire to receive loans, their ability to meet the required profitability level of 40 percent and their ability to produce collateral for at least 100 percent of the loan value. Under this approach, total demand was for USD 70 million (AMD 31.7 billion) with demand for long-term loans again accounting for two-thirds of total demand. The demand for short-term loans was for USD 24 million (AMD 10.8 billion).

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LOOKING FOR SMALL LONG-TERM LOANS IN AMD  
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16. The CBA also asked farmers about preferred terms, including preferred loan maturity dates, about obstacles to agricultural lending and the purpose of loans.

-- Eighty-eight percent of the farmers surveyed preferred to receive loans in Armenian drams (AMD), only 8 percent preferred USD. The farmers said their preference was based on the stability of AMD (61.1 percent), trust towards AMD (13.2 percent) and having AMD as their trade currency (18.4 percent). Nevertheless, only 30.1 percent of loans provided by banks to farmers are in Armenian drams.

-- Out of 635 farmers surveyed 487 had applied for

YEREVAN 00000380 002.2 OF 002

agricultural loans and 362 (57 percent) had received the loans.

-- When asked about obstacles to agricultural lending, 30.6 percent of respondents cited the high risks related to agriculture, 28 percent identified the absence of collateral, 14.9 percent identified high interest rates, 10.1 percent named bureaucracy and 5.6 percent cited short lending terms.

-- Forty-one percent of respondents sought loans for less than AMD 500 thousand (USD 1,100), accounting for 4.9 percent of the total sum demanded. Twenty-eight percent sought loans from AMD 500 thousand to 2 million (USD 1,100 - 4,000), accounting for 10.8 percent of total sum demanded; 23 percent sought loans from AMD 2 million to 5 million (USD 4,000 to 11,000) accounting for 25.8 percent of loan demand; 6.5 percent sought loans from AMD 5 million to 40 million (USD 11,000 - 88,000) accounting for 23.3 percent of the total sum demanded; and 1.5 percent sought loans for more than AMD 40 million (USD 88,000) accounting for 35.2 percent of the total sum demanded.

-- Thirty-two and a half percent of the respondents said they would need short-term loans for less than one year. These loans account for only 9.3 percent of total loan demand. Thirty-five percent preferred loans for a period of 1 to 2 years (accounting for 43.1 percent of the total loan demand); 22.2 percent preferred loans for 2 to 5 years (accounting for 22.1 percent of loan demand); 9.6 percent preferred loans for more than 5 years (accounting for 25.5 percent of loan demand).

-- The majority of the farmers surveyed, 64.1 percent, plan to invest in livestock breeding vice 35.9 percent in crop production.

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COMMENT:  
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17. Due to the limited sample size, the CBA's raw data and final estimates should be viewed with caution. It is clear, however, that there is a significant need for additional agricultural credit in Armenia. Current profitability and collateral requirements prevent many farmers who are seeking credit from qualifying for loans. USAID, USDA, MCC and DoS are working together to ensure that future farm credit programs will assist these individuals without undermining the existing (and growing) commercial agricultural loan market.  
EVANS